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NOTES

THE DEVELOPMENT OF OUR MERCHANT MARINE

What to do with the ships that the necessities of war have placed in our hands, how to find profitable employment for them, how to further our foreign commerce through the establishment of new trade routes, and how to maintain in fair vigor the shipbuilding industry, developed at so large a cost to the nation, are questions appealing to the highest statesmanship, questions that merit the widest consideration and the fullest discussion.

It is hardly necessary to mention the importance of encouraging exports of raw and finished materials so that payment for the use of foreign capital, payment for foreign products imported into the United States and for foreign services, may be made in American products rather than in American gold; and merchants and manufacturers everywhere recognize the advantages of broadening the market for American products. In spite of this, however, I often wonder whether we are keenly alive to the pressing importance of our overseas transportation system as one of the vital factors in meeting international competition. Those engaged in the export business have complained for years that our foreign trade lacked the stimulus of American ships, that foreign competitors controlling more or less directly their own lines had the advantage of fast and regular service, while America had to depend on slow and uncertain sailings, had to suffer from discrimination in freight charges, and placed its business secrets as to the nature of the consignment and the name and address of the consignee into the hands of foreign shipowners for possible betrayal to foreign competitors.

The use of a large merchant fleet for the transportation of our foreign commerce is secondary to its use as an important arm of the national defense. A large merchant fleet, if we will keep in mind the lesson taught by the war, and the obligations we expect to assume in the peace pact, is absolutely essential to our national safety, and this need should be pointed out to those members of the new Congress who seem to feel that economy in expenditure is the only consideration that should weigh.

Every possible effort should, of course, be made to limit expenditures, so that the heavy burden of taxes on our industries and our commerce

may be reduced, but this limitation should not go so far as to jeopardize the national safety or to sacrifice work already well under way. The control of future ship construction and the determination of a suitable plan for the establishment, operation, and development of an American Merchant Marine rest, after all, in the hands of Congress, and the Shipping Board can but act as advisors.

The present activities of the Board are therefore concentrated on an analysis of conditions that affect American ship operation as compared with foreign operation, a survey of the possibilities of American foreign trade, and a determination of the character of vessels that would best meet the needs of that trade. Mr. Hurley, in order to insure fairly full employment of the Fleet, has very wisely laid down the rule that the Fleet should not be larger than is necessary to take care of 50 per cent of our water-borne exports. In June, 1915, our Merchant Fleet engaged in the carriage of our foreign business aggregated 1,330,000 gross tons, or approximately 2,000,000 tons dead weight, and carried about 11 per cent of our water-borne exports and about 18 per cent of our water-borne imports. With the growth of foreign business which is bound to result from the elimination of Germany as a competitor and the greatly improved financial condition of the country, it seems as if under the Shipping Board's rule we could employ a Fleet of at least 12,000,000 dead weight tons in our foreign commerce.

The total net program of the Emergency Fleet Corporation can, with the sale of some of its smaller vessels and the substitution of larger and faster vessels for those of slower speed not yet too far advanced, be brought within the compass of this figure and will then constitute as fairly balanced a fleet of cargo carriers as any of its competitors. It is true that these vessels will represent very high costs as compared with the pre-war costs of bottoms, but it is also highly probable that future costs in many years to come will not even approach pre-war figures.

From information at our command it appears that if the cost of constructing the entire steel tonnage of the Emergency Fleet Corporation program was not more than sixty dollars per dead weight ton in excess of the present cost of constructing vessels of a similar type in English yards, and inasmuch as our tonnage will all be delivered within twelve months and will therefore be available long before the other maritime nations can replace the tonnage destroyed by the submarine, it is not unlikely that the higher freight rates that will continue for some time will repay, in part at least, the excess of our costs over those of the future.

I am very certain that if we have to charge off any part of the cost of our ships to bring them down to current prices for tonnage the amount will not be nearly as large as is generally supposed. The wood ship was a purely emergency vessel, and while it is hoped that the vessels thus far completed will find a limited market, there can be no hope for any considerable salvage. But even the wood ships proved of service in the war, and the loss on this part of the program was a legitimate and justifiable war expenditure.

If we grant that to serve the needs of national safety and the needs of our foreign commerce it is essential to have an American Merchant Marine of some size, then we are confronted with the problem of converting the Fleet which the necessities of war placed into our hands into a profitable and successful American Merchant Marine. That is no easy task, for the Shipping Board is much in the position of the corporation which constructed a huge plant for the manufacture of ordnance and now has on its hands buildings and equipment designed for a special purpose that must be altered to suit some new line of effort. The Fleet was created purely for the emergency; there was neither time nor opportunity to study our post-war needs and frame our program to suit them. Every ship of every character that our yards could produce was ordered, except that owing to the inexperience of the men and the managements the Fleet Corporation confined itself largely to the simplest types of cargo carriers. Modifications of some magnitude have been made since the armistice reduced the pressure on the yards, and a further balancing can be effected by substitutions of more desirable types, a step that has been for some time in contemplation. We can count, therefore, on a fairly well-balanced Fleet, and it is necessary for us to determine what to do with it.

Mr. Hurley met this situation two months ago by submitting a plan which involves private ownership, private operation, and the creation of a fund for the development of new lines—three sound and essential principles. The plan was submitted to provoke discussion and invite suggestion, and it is in that spirit that we can consider it. I may as well confess at the beginning that if I ever had even embryonic leanings toward government ownership or operation I am completely and permanently cured. I subscribe, therefore, heartily to Mr. Hurley's private-ownership and private-operation principles. But I am not certain that immediate sale can be effected, for the prompt disposition of the entire Fleet can be made only at ruinous sacrifices. And the

Fleet should be disposed of *in toto*, for unless that is done private shippers will buy the cream of the Fleet and the government will be left to operate an ill-assorted and unprofitable remainder.

Even if the Fleet is entirely sold, it will have to be sold, in part at least, to men lacking in shipping and perhaps in business experience; for the Fleet we propose to sell is six times the size of the Fleet owned and operated by private capital in 1915; and as the sale must in substantially every case be made on time payments it is inevitable that many of the vessels will drift back into the hands of the government through the failure of the purchasers. We shall in this respect but reproduce the situation in the shipbuilding industry, unless we profit by the experience of the Emergency Fleet Corporation; for it is truly astonishing how many men are willing to assume unknown business risks with the other man's money. The sudden injection into the business of ship operation of men inexperienced in its opportunities, its processes, and its risks is bound to result in unwise and destructive cutting of rates among our own shippers, a contingency that may, in large measure, prevent the establishment of a really effective American Merchant Marine. For an American Merchant Marine can exist only if it successfully meets the competition of foreign fleets, and it can never do this in its earlier existence unless it meets foreign competition as a unit under more or less centralized direction and without the losses resulting from unwise competition within itself. I feel, therefore, that, while Mr. Hurley's plan should be the ultimate goal of our efforts, private ownership and private operation will have to be preceded by a period of government ownership and private operation under government direction until the needs of our foreign commerce have been established and the experience and fitness of charterers to own and operate vessels have been demonstrated. New lines helpful to our commerce can be opened up during this period by paying competent operators a fee for their services and giving them a substantial interest in the profits until the advances by the government have been repaid.

It is probable that all of this development expense can be paid out of operating income, just as the establishment of new lines in any business is paid for out of the proceeds of the old.

Much apprehension is felt that the provisions of the Seaman's Bill may place a prohibitive handicap on ship operation under the American flag, but Mr. John H. Rosseter, the capable and experienced

Director of Operations of the Shipping Board, contends that this handicap is so slight that American ingenuity can readily overcome it. Mr. Rosseter is much more concerned with the first cost of ships and feels certain that if the American shipyards will build as economically as foreign yards there need be no fear as to the future of the American Merchant Marine.

We cannot quickly convert the Fleet we have on our hands into a really effective Merchant Marine unless the nation is willing to pay the price. We cannot shift the burden of finding profitable employment for so large a Fleet onto inexperienced private shoulders, for in the end the nation will pay the loss and will suffer from the delay, just as it did in the shipyards.

The problem is vastly different from that usually attendant on the development of a business, because there experience grows with the demands upon it; but in this case we have all the facilities for a huge transportation business, and we lack the experience to make all these facilities immediately available. Shall we therefore use only those vessels which our experience can profitably handle, or shall the government, through temporary retention of title and proper stimulus and encouragement, bring all the vessels into prompt use and then dispose of them in a wider and better market? The total money loss will, I am convinced, be less if we follow this plan, and our foreign trade will be quickened and encouraged.

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THE EMPLOYMENT SITUATION

The summary of the employment situation for the past month shows a gradual decrease in the numbers employed; at the same time that about 80,000 men a week are being demobilized. (A possible 20,000 of these may be estimated as returning to the cities reporting.) Between May 3 and May 10, in a group of 2,613 firms representing 58 cities, the actual net decrease of employees was 9,056 (9,218 employees were laid off in Cincinnati alone, most of them in the iron and steel industries).

The tabular summary indicates the general trend of affairs, less sharply perhaps, except as regards the number of cities with acute industrial problems: